

PRESTON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	22
Statement of Changes in Fiduciary Net Assets	K	23
Notes to Financial Statements		24-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		34
Notes to Required Supplementary Information - Budgetary Reporting		35
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	37
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	38
Private Purpose Trust - Scholarships Fund:		
Combining Statement of Fiduciary Net Assets	4	39
Combining Statement of Changes in Fiduciary Net Assets	5	40
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	6	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	7	42
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		43-44
Schedule of Findings		45-48

Preston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Ken Lane	President	2008
Tim Gradert	Vice President	2006
Warren Moeller	Board Member	2006
Sally Marvin	Board Member	2007
Janet Yadoff	Board Member	2007
Board of Education (After September 2006 Election)		
Ken Lane	President	2008
Janet Yadoff	Vice President	2007
Sally Marvin	Board Member	2007
Jeff Evans	Board Member	2009
Dan Henningsen	Board Member	2009
School Officials		
Paul Tobin	Superintendent	2007
Linda Skoff	District Secretary/ Treasurer	2007
Vicki Schmidt	Business Manager	2007
Brian Gruhn	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Preston Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Preston Community School District, Preston, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Preston Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2008 on our consideration of the Preston Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Preston Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Preston Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,879,957 in fiscal 2006 to \$2,996,187 in fiscal 2007, while General Fund expenditures also increased from \$2,876,687 in fiscal 2006 to \$2,973,794 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$392,196 in fiscal 2006 to \$414,589 in fiscal 2007, which was a 5.71% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources. The increase in expenditures was primarily due to an increase in negotiated salaries and benefits.
- The District's October 2006 enrollment declined compared to the previous year. The certified enrollment was 327.0, a decrease of 9.0 students.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Preston Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Preston Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Preston Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Preston Community School District Annual Financial Report

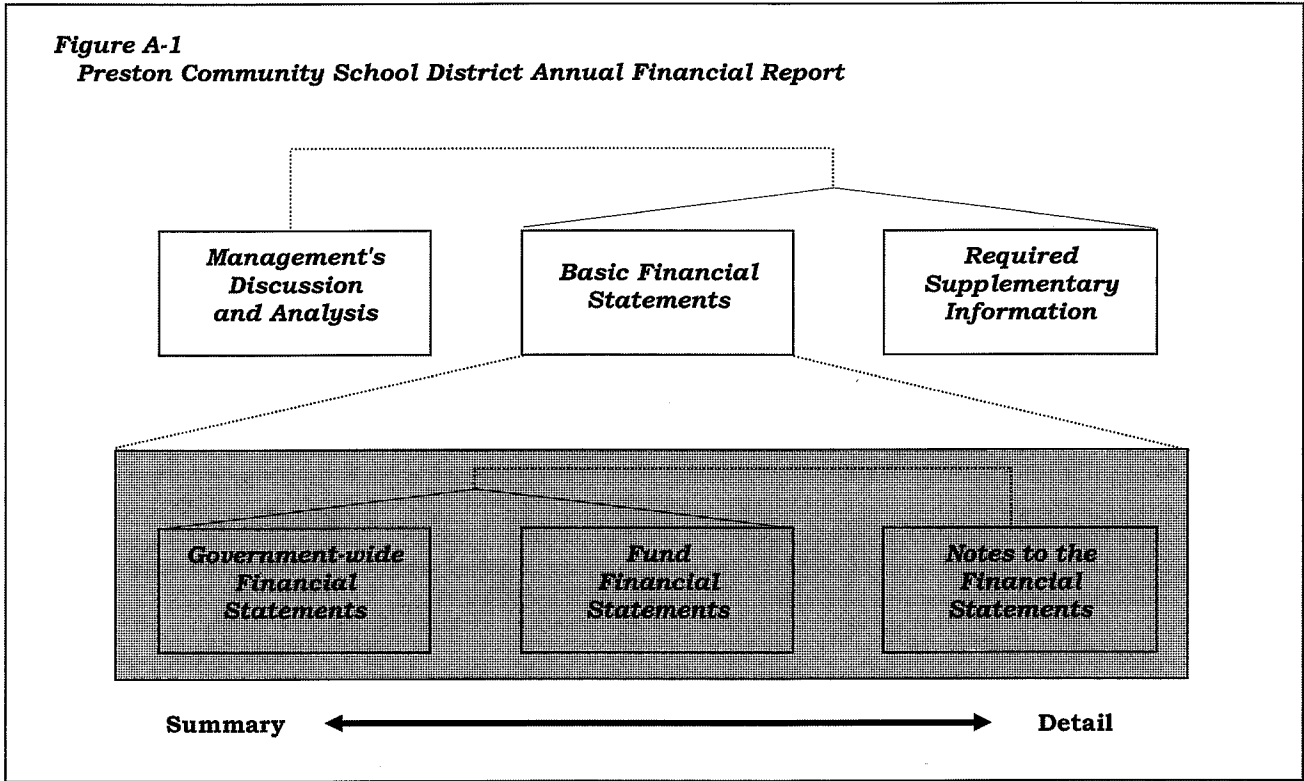


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 2,404,920	2,309,716	27,907	29,619	2,432,827	2,339,335	4.00%
Capital assets	833,946	832,918	7,101	8,063	841,047	840,981	0.01%
Total assets	3,238,866	3,142,634	35,008	37,682	3,273,874	3,180,316	2.94%
Long-term obligations	77,010	79,099	0	0	77,010	79,099	-2.64%
Other liabilities	1,475,101	1,340,211	1,481	3,317	1,476,582	1,343,528	9.90%
Total liabilities	1,552,111	1,419,310	1,481	3,317	1,553,592	1,422,627	9.21%
Net assets:							
Invested in capital assets, net of related debt	791,200	832,918	7,101	8,063	798,301	840,981	-5.08%
Restricted	510,668	561,934	0	0	510,668	561,934	-9.12%
Unrestricted	384,887	328,472	26,426	26,302	411,313	354,774	15.94%
Total net assets	\$ 1,686,755	1,723,324	33,527	34,365	1,720,282	1,757,689	-2.13%

The District's combined net assets decreased by 2.13%, or \$37,407, under the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$51,266 or 9.12% under the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$56,539, or 15.94% over the prior year. This was due to primarily to the increase in the General Fund balance.

Figure A-4 shows the changes in total net assets for the year ended June 30, 2007 and 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 298,594	429,014	72,727	67,420	371,321	496,434	-25.20%
Operating grants and contributions and restricted interest	365,486	329,655	43,425	42,250	408,911	371,905	9.95%
Capital grants and contributions and restricted interest	35,430	0	0	0	35,430	0	100.00%
General revenues:							
Property tax	1,082,840	1,059,862	0	0	1,082,840	1,059,862	2.17%
Local option sales and service tax	194,075	177,664	0	0	194,075	177,664	9.24%
Unrestricted state grants	1,334,650	1,281,733	0	0	1,334,650	1,281,733	4.13%
Unrestricted investment earnings	47,957	39,878	1,743	1,547	49,700	41,425	19.98%
Other general revenues	142,134	0	0	0	142,134	0	100.00%
Transfers	(139,395)	0	0	0	(139,395)	0	-100.00%
Total revenues	3,361,771	3,317,806	117,895	111,217	3,479,666	3,429,023	1.48%
Program expenses:							
Governmental activities:							
Instruction	2,187,902	2,017,575	0	0	2,187,902	2,017,575	8.44%
Support services	1,068,442	1,041,455	8,174	0	1,076,616	1,041,455	3.38%
Non-instructional programs	891	723	110,559	112,316	111,450	113,039	-1.41%
Other expenses	141,105	136,134	0	0	141,105	136,134	3.65%
Total expenses	3,398,340	3,195,887	118,733	112,316	3,517,073	3,308,203	6.31%
Change in net assets	(36,569)	121,919	(838)	(1,099)	(37,407)	120,820	-130.96%
Beginning net assets	1,723,324	1,601,405	34,365	35,464	1,757,689	1,636,869	7.38%
Ending net assets	\$ 1,686,755	1,723,324	33,527	34,365	1,720,282	1,757,689	-2.13%

In fiscal 2007, property tax, local option sales and services tax and unrestricted state grants account for 77.68% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.52% of the revenue from business type activities.

The District's total revenues and transfers were approximately \$3.5 million of which \$3.4 million was for governmental activities and less than \$0.1 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.48% increase in revenues, net transfers and a 6.31% increase in expenses. The increase in expenses related to increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

Governmental Activities

Revenues, net transfers for governmental activities were \$3,361,771 and expenses were \$3,398,340.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 2,187,902	2,017,575	8.44%	1,627,479	1,358,100	19.83%
Support services	1,068,442	1,041,455	2.59%	1,033,012	1,040,817	-0.75%
Non-instructional programs	891	723	23.24%	891	723	23.24%
Other expenses	141,105	136,134	3.65%	37,448	37,578	-0.35%
Totals	\$ 3,398,340	3,195,887	6.33%	2,698,830	2,437,218	10.73%

- A portion of the cost financed by users of the District's programs was \$298,594.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$400,916.
- The net cost portion of governmental activities was financed with \$1,082,840 in property taxes, \$194,075 in local option sales and services tax, \$1,334,650 in unrestricted state grants, unrestricted investment earnings of \$47,957 and other general revenues of \$142,134.

Business-Type Activities

Revenues of the District's business-type activities were \$117,895 and expenses were \$118,733. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Preston Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the District completed the year, its governmental funds reported combined fund balances of \$925,422, below last years ending fund balances of \$958,698.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the result of many factors. Growth during the year in state sources resulted in an increase in revenues. The District also increased its General Fund expenditures over the prior year, but the increase in revenues exceeded the increase in expenditures.

- The Capital Projects Fund balance increased from \$153,102 in fiscal 2006 to \$221,734 in fiscal 2007. The increase is attributable to increased local option sales and services tax collected in the fiscal year of 2007.

Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from \$34,365 at June 30, 2006 to \$33,527 at June 30, 2007, representing a decrease of 2.44% under the prior year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$12,225 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$841,047, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$83,288.

The original cost of the District's capital assets was \$3,463,379. Governmental funds account for \$3,396,165 with the remainder of \$67,214 accounted for in the Proprietary School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvement category. The District's land improvements totaled \$74,134, at June 30, 2007, compared to \$6,351 reported at June 30, 2006. The District added new playground equipment and softball field lighting causing the increase in land improvements.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 11,470	11,470	0	0	11,470	11,470	0.00%
Buildings	599,838	631,259	0	0	599,838	631,259	-5.24%
Land improvements	74,134	6,351	0	0	74,134	6,351	91.43%
Machinery and equipment	148,504	183,838	7,101	8,063	155,605	191,901	-23.33%
Total	\$ 833,946	832,918	7,101	8,063	841,047	840,981	0.01%

Long-Term Debt

At year-end, the District had \$77,010 in other long-term debt outstanding. This represents a decrease of 2.64%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
Bus lease payable	\$ 42,746	48,883	-12.55%
Early retirement	20,845	21,364	-2.43%
Compensated absences	13,419	8,852	51.59%
Totals	<u>\$ 77,010</u>	<u>79,099</u>	<u>-2.64%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of these existing circumstances that could significantly affect its financial health in the future.

- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.
- The District has experienced reduced enrollment for the last few years, cutting state aid to the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Vicki Schmidt, Business Manager, Preston Community School District, P.O. Box 10, Preston, Iowa, 52069.

BASIC FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,146,604	26,290	1,172,894
Receivables			
Property tax:			
Delinquent	23,312	0	23,312
Succeeding year	1,108,150	0	1,108,150
Accounts	1,993	0	1,993
Due from other governments	124,861	0	124,861
Inventories	0	1,617	1,617
Capital assets, net of accumulated depreciation (Note 4)	833,946	7,101	841,047
TOTAL ASSETS	3,238,866	35,008	3,273,874
LIABILITIES			
Accounts payable	100,072	6	100,078
Salaries and benefits payable	263,004	481	263,485
Accrued interest payable	1,971	0	1,971
Deferred revenue:			
Succeeding year property tax	1,108,150	0	1,108,150
Other	1,904	0	1,904
Unearned revenue	0	994	994
Long-term liabilities: (Note 5)			
Portion due within one year:			
Early retirement payable	15,515	0	15,515
Compensated absences payable	13,419	0	13,419
Bus lease payable	6,420	0	6,420
Portion due after one year:			
Early retirement payable	5,330	0	5,330
Bus lease payable	36,326	0	36,326
TOTAL LIABILITIES	1,552,111	1,481	1,553,592
NET ASSETS			
Invested in capital assets, net of related debt	791,200	7,101	798,301
Restricted for:			
Talented and gifted	17,983	0	17,983
Professional development	475	0	475
Additional teacher contract day	11	0	11
Market factor	2,211	0	2,211
Capital projects	221,734	0	221,734
Management levy	71,974	0	71,974
Physical plant and equipment levy	106,259	0	106,259
Other special revenue purposes	90,021	0	90,021
Unrestricted	384,887	26,426	411,313
TOTAL NET ASSETS	\$ 1,686,755	33,527	1,720,282

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,416,799	164,450	245,082	0	(1,007,267)	0	(1,007,267)
Special instruction	323,972	69,030	16,747	0	(238,195)	0	(238,195)
Other instruction	447,131	65,114	0	0	(382,017)	0	(382,017)
	<u>2,187,902</u>	<u>298,594</u>	<u>261,829</u>	<u>0</u>	<u>(1,627,479)</u>	<u>0</u>	<u>(1,627,479)</u>
Support services:							
Student services	45,599	0	0	0	(45,599)	0	(45,599)
Instructional staff services	123,615	0	0	0	(123,615)	0	(123,615)
Administration services	400,297	0	0	0	(400,297)	0	(400,297)
Operation and maintenance of plant services	323,640	0	0	35,430	(288,210)	0	(288,210)
Transportation services	175,291	0	0	0	(175,291)	0	(175,291)
	<u>1,068,442</u>	<u>0</u>	<u>0</u>	<u>35,430</u>	<u>(1,033,012)</u>	<u>0</u>	<u>(1,033,012)</u>
Non-instructional programs	891	0	0	0	(891)		(891)
Other expenditures:							
Long-term debt interest	1,972	0	0	0	(1,972)	0	(1,972)
ARA flowthrough	103,657	0	103,657	0	0	0	0
Depreciation (unallocated)*	35,476	0	0	0	(35,476)	0	(35,476)
	<u>141,105</u>	<u>0</u>	<u>103,657</u>	<u>0</u>	<u>(37,448)</u>	<u>0</u>	<u>(37,448)</u>
Total governmental activities	<u>3,398,340</u>	<u>298,594</u>	<u>365,486</u>	<u>35,430</u>	<u>(2,698,830)</u>	<u>0</u>	<u>(2,698,830)</u>
Business-type activities:							
Support services:							
Administration services	150	0	0	0	0	(150)	(150)
Operation and maintenance of plant services	8,024	0	0	0	0	(8,024)	(8,024)
	<u>8,174</u>	<u>0</u>	<u>0</u>	<u>35,430</u>	<u>0</u>	<u>(8,174)</u>	<u>(8,174)</u>
Non-instructional programs:							
Nutrition services	110,559	72,727	43,425	0	0	5,593	5,593
Total business-type activities	<u>118,733</u>	<u>72,727</u>	<u>43,425</u>	<u>0</u>	<u>0</u>	<u>(2,581)</u>	<u>(2,581)</u>
Total	<u>\$ 3,517,073</u>	<u>371,321</u>	<u>408,911</u>	<u>35,430</u>	<u>(2,698,830)</u>	<u>(2,581)</u>	<u>(2,701,411)</u>
General Revenues and Transfers:							
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,061,006	0	1,061,006
Capital outlay					21,834	0	21,834
Local option sales and services tax					194,075	0	194,075
Unrestricted state grants					1,334,650	0	1,334,650
Unrestricted investment earnings					47,957	1,743	49,700
Other general revenue					142,134	0	142,134
Transfers					(139,395)	0	(139,395)
Total general revenues and transfers					<u>2,662,261</u>	<u>1,743</u>	<u>2,664,004</u>
Change in net assets					(36,569)	(838)	(37,407)
Net assets beginning of year					1,723,324	34,365	1,757,689
Net assets end of year					<u>\$ 1,686,755</u>	<u>33,527</u>	<u>1,720,282</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 636,772	214,086	289,378	1,140,236
Receivables:				
Property tax:				
Delinquent	21,871	0	1,441	23,312
Succeeding year	1,036,150	0	72,000	1,108,150
Accounts	1,993	0	0	1,993
Due from other governments	69,335	54,473	1,053	124,861
TOTAL ASSETS	\$ 1,766,121	268,559	363,872	2,398,552
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 50,474	46,825	2,773	100,072
Salaries and benefits payable	263,004	0	0	263,004
Deferred revenue:				
Succeeding year property tax	1,036,150	0	72,000	1,108,150
Other	1,904	0	0	1,904
Total liabilities	1,351,532	46,825	74,773	1,473,130
Fund balances:				
Reserved for:				
Talented and gifted	17,983	0	0	17,983
Professional development	475	0	0	475
Additional teacher contract day	11	0	0	11
Market factor	2,211	0	0	2,211
Unreserved:				
Unrestricted	393,909	221,734	289,099	904,742
Total fund balances	414,589	221,734	289,099	925,422
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,766,121	268,559	363,872	2,398,552

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 925,422
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	833,946
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	6,368
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,971)
Long-term liabilities, including early retirement, compensated absences and bus lease are not due and payable in the current period and, therefore, are not reported in the funds.	(77,010)
Net assets of governmental activites (page 13)	<u>\$ 1,686,755</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,015,984	194,075	66,856	1,276,915
Tuition	222,204	0	0	222,204
Other	57,909	16,152	227,850	301,911
State sources	1,602,585	0	46	1,602,631
Federal sources	97,505	0	0	97,505
Total revenues	2,996,187	210,227	294,752	3,501,166
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,361,162	0	30,852	1,392,014
Special instruction	320,815	0	3,157	323,972
Other instruction	262,077	0	185,054	447,131
	1,944,054	0	219,063	2,163,117
Support services:				
Student services	45,870	0	557	46,427
Instructional staff services	122,129	0	1,486	123,615
Administration services	379,195	0	6,467	385,662
Operation and maintenance of plant services	236,835	5,530	16,172	258,537
Transportation services	142,054	18,875	9,869	170,798
	926,083	24,405	34,551	985,039
Non-instructional programs:				
Food service operation	0	0	891	891
Other expenditures:				
Facilities acquisitions	0	108,799	25,153	133,952
Long-term debt:				
Principal	0	0	6,137	6,137
Interest	0	0	2,254	2,254
AEA flowthrough	103,657	0	0	103,657
	103,657	108,799	33,544	246,000
Total expenditures	2,973,794	133,204	288,049	3,395,047
Excess of revenues over expenditures	22,393	77,023	6,703	106,119
Other financing sources(uses):				
Transfers in	0	0	8,391	8,391
Transfers out	0	(8,391)	(139,395)	(147,786)
Total other financing sources(uses)	0	(8,391)	(131,004)	(139,395)
Net change in fund balances	22,393	68,632	(124,301)	(33,276)
Fund balance beginning of year	392,196	153,102	413,400	958,698
Fund balance end of year	\$ 414,589	221,734	289,099	925,422

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (33,276)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on disposal of capital assets in the year are as follows:

Capital outlays	\$ 87,524	
Depreciation expense	(82,326)	
Loss on disposal of capital assets	<u>(4,170)</u>	1,028

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 6,137

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 282

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (6,692)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	\$ 519	
Compensated absences	<u>(4,567)</u>	(4,048)

Changes in net assets of governmental activities (page 14) \$ (36,569)

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
ASSETS		
Cash and pooled investments	\$ 26,290	6,368
Accounts receivable	0	0
Inventories	1,617	0
Capital assets, net of accumulated depreciation	7,101	0
TOTAL ASSETS	35,008	6,368
LIABILITIES		
Accounts payable	6	0
Salaries and benefits payable	481	0
Unearned revenue	994	0
TOTAL LIABILITIES	1,481	0
NET ASSETS		
Invested in capital assets, net of related debt	7,101	0
Unrestricted	26,426	6,368
TOTAL NET ASSETS	\$ 33,527	6,368

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 72,727	23,793
TOTAL OPERATING REVENUES	72,727	23,793
OPERATING EXPENSES:		
Support services:		
Administrative services:		
Services	150	29,074
Operation and maintenance of plant services:		
Salaries	5,457	0
Benefits	2,063	0
Services	504	0
	8,024	0
Total support services	8,174	29,074
Non-instructional programs:		
Food service operations:		
Salaries	40,659	0
Benefits	9,784	0
Services	2,086	0
Supplies	57,068	0
Depreciation	962	0
	110,559	0
Other enterprise operations:		
Services	0	1,411
Total non-instructional programs	110,559	1,411
TOTAL OPERATING EXPENSES	118,733	30,485
OPERATING LOSS	(46,006)	(6,692)
NON-OPERATING REVENUES:		
Interest on investments	1,743	0
State sources	1,691	0
Federal sources	41,734	0
TOTAL NON-OPERATING REVENUES	45,168	0
Change in net assets	(838)	(6,692)
Net assets beginning of year	34,365	13,060
Net assets end of year	\$ 33,527	6,368

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 71,306	0
Cash received from miscellaneous operating activities	1,158	23,793
Cash payments to employees for services	(59,542)	0
Cash payments to suppliers for goods or services	(51,182)	(30,485)
Net cash used in operating activities	(38,260)	(6,692)
Cash flows from non-capital financing activities:		
State grants received	1,691	0
Federal grants received	34,125	0
Net cash provided by non-capital financing activities	35,816	0
Cash flows from investing activities:		
Interest on investments	1,743	0
Net cash provided by investing activities	1,743	0
Net decrease in cash and cash equivalents	(701)	(6,692)
Cash and cash equivalents at beginning of year	26,991	13,060
Cash and cash equivalents at end of year	\$ 26,290	6,368
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (46,006)	(6,692)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	7,609	0
Depreciation	962	0
Decrease in inventories	1,011	0
Increase in accounts payable	6	0
Decrease in salaries and benefits payable	(1,579)	0
Decrease in deferred revenue	(263)	0
Net cash used in operating activities	\$ (38,260)	(6,692)

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR
END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE
SHEET:

Current assets:		
Cash and pooled investments	\$ 26,290	6,368

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received
Federal commodities valued at \$7,609.
SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 139,623	807
	<u>139,623</u>	<u>807</u>
LIABILITIES		
Due to other groups	0	807
	<u>0</u>	<u>807</u>
NET ASSETS		
Reserved for scholarships	\$ 139,623	0
	<u>139,623</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest income	\$ 5,186
Total additions	<u>5,186</u>
Deletions:	
Instruction:	
Regular instruction:	
Scholarships awarded	4,958
Total deletions	<u>4,958</u>
Change in net assets before other financing sources	228
Other financing sources:	
Transfer in	<u>139,395</u>
Change in net assets	139,623
Net assets beginning of year	<u>0</u>
Net assets end of year	<u>\$ 139,623</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Preston Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Preston, Iowa, and the predominate agricultural territory in Jackson and Clinton Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Preston Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Preston Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jackson and Clinton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service

operations of the District. The Internal Service Fund is used to account for the partial self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds are as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement

grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates are stated at fair value.

At June 30, 2007, the District had investments in Certificates of Deposit maturing over a year as follows:

	Fair Value
Certificates of deposit	<u>\$ 66,870</u>

Interest rate risk. The District's investment policy limits the investment of operating funds(funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Private Purpose Trust	Expendable Trust	\$ 139,395
Debt Service	Capital Projects	<u>8,391</u>
		<u>\$ 147,786</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 11,470	0	0	11,470
Total capital assets not being depreciated	11,470	0	0	11,470
Capital assets being depreciated:				
Buildings	1,767,985	0	0	1,767,985
Land improvements	75,569	71,838	0	147,407
Machinery and equipment	1,476,236	15,686	22,619	1,469,303
Total capital assets being depreciated	3,319,790	87,524	22,619	3,384,695
Less accumulated depreciation for:				
Buildings	1,136,726	31,421	0	1,168,147
Land improvements	69,218	4,055	0	73,273
Machinery and equipment	1,292,398	46,850	18,449	1,320,799
Total accumulated depreciation	2,498,342	82,326	18,449	2,562,219
Total capital assets being depreciated, net	821,448	5,198	4,170	822,476
Governmental activities capital assets, net	\$ 832,918	5,198	4,170	833,946
Business-type activities:				
Machinery and equipment	\$ 67,214	0	0	67,214
Less accumulated depreciation	59,151	962	0	60,113
Business-type activities capital assets, net	\$ 8,063	(962)	0	7,101

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 17,616

Support services:

Student services 168

Administration 6,976

Operation and maintenance of plant 2,641

Transportation 19,449

46,850

Unallocated depreciation 35,476

Total governmental activities depreciation expense \$ 82,326

Business-type activities:

Food services \$ 962

Total business-type activities depreciation expense \$ 962

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Bus lease payable	\$ 48,883	0	6,137	42,746	6,420
Early retirement	21,364	10,661	11,180	20,845	15,515
Compensated absences	8,852	13,419	8,852	13,419	13,419
Total	\$ 79,099	24,080	26,169	77,010	35,354

Bus Lease Payable

During the year ended June 30, 2006 the District entered into a bus lease agreement. The bus lease will be financed with local option sales and services tax received in the Capital Projects Fund. Details of the District's June 30, 2007 bus lease payable is as follows:

Year Ending June 30,	Bus Lease as of July 3, 2005		
	Principal	Interest	Total
2008	\$ 6,420	1,971	8,391
2009	36,326	1,675	38,001
Total	\$ 42,746	3,646	46,392

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible

employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule. During the year ended June 30, 2007, the District paid \$11,180 in early retirement benefits. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$102,401, \$99,078 and \$95,385, respectively, equal to the required contributions for each year.

(7) Risk Management

Preston Community School District has a self-funded dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$12,500 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

Preston Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$103,657 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PRESTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,801,030	74,470	1,875,500	1,795,312	1,795,312	80,188
State sources	1,602,631	1,691	1,604,322	1,650,524	1,650,524	(46,202)
Federal sources	97,505	41,734	139,239	161,000	161,000	(21,761)
Total revenues	3,501,166	117,895	3,619,061	3,606,836	3,606,836	12,225
Expenditures:						
Instruction	2,163,117	0	2,163,117	2,452,160	2,452,160	289,043
Support services	985,039	8,174	993,213	1,178,808	1,178,808	185,595
Non-instructional programs	891	110,559	111,450	188,164	188,164	76,714
Other expenditures	246,000	0	246,000	576,978	576,978	330,978
Total expenditures	3,395,047	118,733	3,513,780	4,396,110	4,396,110	882,330
Excess(deficiency) of revenues over(under) expenditures	106,119	(838)	105,281	(789,274)	(789,274)	894,555
Other financing uses, net	(139,395)	0	(139,395)	0	0	(139,395)
Excess(deficiency) of revenues over(under) expenditures and other financing uses	(33,276)	(838)	(34,114)	(789,274)	(789,274)	755,160
Balance beginning of year	958,698	34,365	993,063	1,268,824	1,268,824	(275,761)
Balance end of year	\$ 925,422	33,527	958,949	479,550	479,550	479,399

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 91,848	91,741	105,789	289,378
Receivables:				
Property tax:				
Current year delinquent	971	0	470	1,441
Succeeding year	50,000	0	22,000	72,000
Due from other governments	0	1,053	0	1,053
TOTAL ASSETS	\$ 142,819	92,794	128,259	363,872
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 0	2,773	0	2,773
Deferred revenue:				
Succeeding year property tax	50,000	0	22,000	72,000
Total Liabilities	50,000	2,773	22,000	74,773
Fund balances:				
Unrestricted	92,819	90,021	106,259	289,099
Total fund balances	92,819	90,021	106,259	289,099
TOTAL LIABILITIES AND FUND BALANCES	\$ 142,819	92,794	128,259	363,872

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 45,022	0	21,834	0	66,856	0	66,856
Other	8,723	187,517	31,610	0	227,850	0	227,850
State sources	31	0	15	0	46	0	46
Total revenues	53,776	187,517	53,459	0	294,752	0	294,752
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	30,852	0	0	0	30,852	0	30,852
Special instruction	3,157	0	0	0	3,157		3,157
Other instruction	1,084	183,970	0	0	185,054	0	185,054
Support services:							
Student support services	557	0	0	0	557	0	557
Instructional staff	1,486	0	0	0	1,486	0	1,486
Administration services	6,467	0	0	0	6,467	0	6,467
Operation and maintenance of plant services	16,172	0	0	0	16,172	0	16,172
Student transportation	9,869	0	0	0	9,869	0	9,869
Non-instructional programs							
Food service operations	891	0	0	0	891	0	891
Other expenditures:							
Facilities acquisitions	0	0	25,153	0	25,153	0	25,153
Long-term debt:							
Principal	0	0	0	0	0	6,137	6,137
Interest	0	0	0	0	0	2,254	2,254
Total expenditures	70,535	183,970	25,153	0	279,658	8,391	288,049
Excess(deficiency) of revenues over(under) expenditures	(16,759)	3,547	28,306	0	15,094	(8,391)	6,703
OTHER FINANCING SOURCES(USES):							
Transfers in	0	0	0	0	0	8,391	8,391
Transfers out	0	0	0	(139,935)	(139,935)	0	(139,935)
Total other financing sources(uses)	0	0	0	(139,935)	(139,935)	8,391	(131,544)
Net change in fund balances	(16,759)	3,547	28,306	(139,935)	(124,841)	0	(124,841)
Fund balance beginning of year	109,578	86,474	77,953	139,935	413,940	0	413,940
Fund balance end of year	\$ 92,819	90,021	106,259	0	289,099	0	289,099

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 3,719	4,171	1,359	6,531
Drama-Thespians	3,064	3,117	3,405	2,776
Dance Club	289	0	0	289
K-6 Music	0	200	0	200
Chorus-Extras	0	1,418	674	744
Instrumental Rental and Supply	859	258	302	815
Band-Extras	161	614	597	178
Performing Arts Boosters	24,304	22,459	20,478	26,285
State Tournament	828	273	350	751
Athletic	3,274	32,593	32,096	3,771
Athletic Wear	4,000	0	0	4,000
Girls golf	50	0	0	50
Athletic Boosters	13,521	34,151	38,984	8,688
SES	1,268	543	750	1,061
FCCLA	72	0	0	72
FFA	2,642	11,616	9,388	4,870
Class of 2006	1,807	0	1,807	0
Class of 2007	2,706	0	926	1,780
Class of 2008	2,192	11,018	11,226	1,984
Class of 2009	543	1,625	768	1,400
Class of 2010	0	2,178	1,263	915
NHS	140	313	335	118
JR. High Student Council	5,490	629	1,369	4,750
High School Student Council	8,516	5,396	6,970	6,942
P/EC Shared HS Football	(2,124)	23,777	22,736	(1,083)
School Carnival	0	29,001	27,311	1,690
Student Activity	9,153	2,167	876	10,444
Total	\$ 86,474	187,517	183,970	90,021

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 JUNE 30, 2007

Private Purpose Trust - Scholarship Fund				
	Wendell	Carstensen	Black	
	Scholarship	Scholarship	Scholarship	Total
ASSETS				
Cash and pooled investments	\$ 127,767	10,793	1,063	139,623
TOTAL ASSETS	<u>127,767</u>	<u>10,793</u>	<u>1,063</u>	<u>139,623</u>
LIABILITIES				
	0	0	0	0
NET ASSETS				
Reserved for scholarships	\$ 127,767	10,793	1,063	139,623

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust - Scholarship Fund			
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	Total
REVENUES:				
Local sources:				
Interest income	\$ 4,785	394	7	5,186
	4,785	394	7	5,186
EXPENDITURES:				
Instruction:				
Regular instruction:				
Scholarships awarded	4,758	100	100	4,958
Excess(deficiency) of revenues over(under) expenditures	27	294	(93)	228
OTHER FINANCING SOURCES:				
Transfers in	127,740	10,499	1,156	139,395
Changes in net assets	127,767	10,793	1,063	139,623
Net assets beginning of year	0	0	0	0
Net assets end of year	\$ 127,767	10,793	1,063	139,623

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 782	25	0	807
Total assets	<u>\$ 782</u>	<u>25</u>	<u>0</u>	<u>807</u>
Liabilities				
Due to other groups	\$ 782	25	0	807
Total liabilities	<u>\$ 782</u>	<u>25</u>	<u>0</u>	<u>807</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	1,276,915	1,237,526	1,183,313	1,202,409
Tuition		222,204	209,882	201,077	182,591
Other		301,911	259,010	187,061	222,361
State sources		1,602,631	1,511,383	1,539,810	1,372,062
Federal sources		97,505	100,005	111,056	126,565
Total		\$ 3,501,166	3,317,806	3,222,317	3,105,988
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,392,014	1,302,187	1,277,207	1,235,958
Special instruction		323,972	297,481	294,413	363,127
Other instruction		447,131	401,155	344,709	402,428
Support services:					
Student services		46,427	54,147	54,137	44,691
Instructional staff services		123,615	144,152	100,510	100,571
Administration services		385,662	357,299	332,905	321,181
Operation and maintenance of plant services		258,537	262,065	233,310	226,555
Transportation services		170,798	195,529	127,610	157,365
Non-instructional programs		891	723	527	0
Other expenditures:					
Facilities acquisitions		133,952	168,518	165,560	101,894
Long-term debt:					
Principal		6,137	8,171	0	0
Interest		2,254	220	0	0
AEA flow-through		103,657	98,556	96,664	93,208
Total		\$ 3,395,047	3,290,203	3,027,552	3,046,978

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Preston Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Preston Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 20, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Preston Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Preston Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Preston Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Preston Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Preston Community School District's financial statements that is more than inconsequential will not be prevented or detected by Preston Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Preston Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Preston Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Preston Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Preston Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Preston Community School District and other parties to whom Preston Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Preston Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2008

PRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-07 Photo Image Checks - We noted during our audit that District receives their checks from the bank as photo images showing only the front of the checks. Chapter 544D.114 of the Code of Iowa requires both the front and back of check images to be retained.

Recommendation - The District should contact the bank to rectify the situation. The District should receive the photo images showing both the front and back of the checks or the original issued check.

Response - We have contacted the bank and will receive checks on a CD with images of the front and backs of checks.

Conclusion - Response accepted.

- I-C-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - We will continue to work on this.

Conclusion - Response accepted.

- I-D-07 Supporting Documents for Payments to Officials - Payments made to officials from the Student Activity fund do not have supporting documentation. In addition, the District paid officials the night of the event.

Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid the night of the game, after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments. The District should have a policy and officials should be informed that payment will be made in this manner unless a valid contract exists.

Recommendation - The copy of the contract made for each official should be used as the support document for payment. In absence of a valid contract, officials should be paid after the event. The documentation necessary to pay for non-contract individuals should be identified and retained.

Response - The District will get copies of contracts with officials as support documentation and pay officials after events.

Conclusion - Response accepted.

- I-E-07 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions for all school sponsored activities. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will continue to work on this.

Conclusion - Response accepted.

- I-F-07 Student Activity Fund - During our audit, we noted the Student Activity Fund included an interest account. During the course of the year, it appeared the interest collected in this account was not allocated at least once during the year.

Recommendation - The interest accumulated in the Student Activity Fund should be allocated at least once during the fiscal year to the various accounts within the Activity Fund.

Response - Interest will be allocated to the Student Activity Fund accounts.

Conclusion - Response accepted.

- I-G-07 Corrective Transfer - The District paid for the bus lease in 2006 from the General Fund. In the year ended June 30, 2007, the District paid for the bus lease from the Capital Projects Fund. It appears that when the District entered into the lease agreement that local option sales and services tax from the Capital Projects Fund was to be used to finance the payments.

Recommendation - The District should make a corrective transfer from the Capital Projects Fund to the General Fund for \$8,390.61. The District should make the remaining lease payments from the Capital Projects Fund.

Response - The District will review the bus lease agreement. The District will make a corrective transfer from the Capital Projects Fund to the General Fund.

Conclusion - Response accepted.

PRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - Business transactions between the District and District officials or employees were noted as follows.

Name, Title and Business Connection	Transaction Description	Amount
Tom and Beth McNeil, Teachers Owners of TM Woodworks	Rent	\$ 1,940

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the teachers do not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 18 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.